



Director of
Central
Intelligence

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8 March 1979

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SITUATION REPORT

CHINA-VIETNAM-USSR

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Chinese forces have disengaged and are now withdrawing along a wide front from northern Vietnam. [redacted]

Hanoi has announced that it will not interfere with the withdrawal. A *Nhan Dan* editorial yesterday said Vietnam will allow the Chinese to "withdraw their troops, but if their units continue their acts of war on their withdrawal route, they will be severely punished." In comments to Reuter news agency, a *Nhan Dan* official acknowledged that there were indications the Chinese had begun to withdraw. [redacted]

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A Vietnamese official admitted on Tuesday for the first time that the Chinese attack has caused significant damage, both economic and military. Vo Van Sung, Ambassador to France, told an AFP reporter that Vietnam had suffered losses that were "quite important in terms of civilian and military losses as well as in terms of material." [Redacted]

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The Government of Laos issued a strongly worded statement Tuesday charging that China recently had stationed several divisions on the Lao border and in doing so had threatened Laotian "independence, sovereignty, and territorial integrity." We have no evidence of such a buildup on the China-Laos border. The Lao statement was similar to recent Vietnamese and Soviet statements on alleged Chinese activity and may have come at the behest of Hanoi. [Redacted]

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Soviet Ambassador to Japan Polyanskiy made a demarche Tuesday to a Japanese Deputy Foreign Minister criticizing the Japanese for indirectly defending China's invasion of Vietnam. The Ambassador delivered a similar criticism on Monday during a meeting with members of the Japanese Diet. The Japanese described the demarche as "very mild," and presumably the Soviets would not want to disturb the relatively more favorable atmosphere for Soviet-Japanese relations in the wake of the Chinese invasion. [Redacted]

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TASS yesterday indirectly noted the Chinese withdrawal. The news agency contended that the actual situation remains unclear despite China's statements of intent, but went on to allege that the invaders were carrying out a scorched-earth policy in occupied areas. Reports of continued fighting, featuring charges of massive Chinese casualties and fierce Vietnamese counterattacks, were also relayed by TASS, but were attributed solely to Vietnamese sources. Such a propaganda stance enables the Soviets to claim victory in the field for Hanoi upon completion of the Chinese pullout, while holding all options open in case of new fighting. [Redacted]

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BRIEFS AND COMMENTS

IRAN: Opposition to Khomeini

Ayatollah Khomeini's criticism of the Bazargan government yesterday points to the growing polarization between secular and religious leaders in Iran. Khomeini, according to press reports, described government ministers as weak. His statement followed a spate of rumors--later denied by the government--that Prime Minister Bazargan had resigned.

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Khomeini's anger may have been prompted by the growing political debate in Iran over his plans to hold a plebiscite on 30 March to approve the creation of an Islamic republic. While the Ayatollah is adamant in demanding the creation of a theocracy, many secular Iranian politicians have objected and insist that the vote should be only on abolition of the monarchy.

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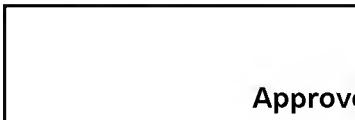
Some of these politicians have formed a new political party, the National Democratic Front. The new group was organized by Hedayatollah Matin-Daftari, a well-known, relatively young National Front activist. He hopes to appeal to Western-trained Iranians and others who are becoming increasingly disillusioned with the narrow sectarianism espoused by Khomeini and worry about Khomeini's obvious antidemocratic bias.

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The debate is focusing on the shape of the new constitution. Khomeini, so far, has refused to release his draft. The Ayatollah still has overwhelming support among most Iranians and could almost certainly win any referendum on an Islamic constitution. The secularists, however, may hope they can delay the process long enough to rally the opposition and make some changes before the constitution is implemented.

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EC: European Monetary System

//The European Monetary System could begin operation as early as Monday now that the French have lifted their reservation against starting EMS without the simultaneous reform of EC farm price policy. [redacted]

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//President Giscard announced the move at his cabinet meeting yesterday. All EC members except the UK had just given the nod to compromise proposals that met most French demands for changes in the Common Agricultural Policy. Without British agreement no change in CAP can go into effect. [redacted]

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//In the compromise package, the "green" British and Irish pounds, Italian lira, and French franc--artificial units used to convert guaranteed farm prices into national currencies--would be devalued so that British, Irish, and Italian farmers would get 5.3 percent more for their produce and French farmers 3.7 percent more. Everyone except the British agreed that new Monetary Compensatory Amounts, taxes and subsidies that neutralize the impact of currency fluctuations on national farm prices, would be eliminated within three years; existing MCAs would be phased out gradually. [redacted]

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//Giscard's decision tacitly recognizes the awkwardness of continuing to hold the EMS hostage to EC agricultural policy. France had increasingly been left without leverage because the UK, which had earlier decided not to participate fully in EMS, emerged as France's staunchest agricultural opponent. Giscard's hand may also have been forced by Chancellor Schmidt's reported second thoughts on EMS, which result at least in part from higher West German inflation in recent months. [redacted]

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//Although an EMS solution simplifies matters, the EC is left facing its traditional spring donnybrook over farm prices. This year, France and West Germany will be trying to get approval for as much of their new agricultural compromise as possible, while the UK hopes to avoid any price increases. [redacted]

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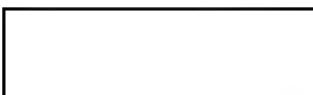
CHAD: Peace Talks Postponed

Talks between Chadian Government and rebel representatives scheduled for yesterday in Nigeria have been postponed because of the latest round of fighting in N'djamena. Both President Malloum and Muslim Prime Minister Habre refuse to leave the city as long as disturbances continue. About 150 Nigerian troops have arrived in N'djamena to assist French forces in a peacekeeping role; Nigeria reportedly plans to have as many as 1,000 soldiers there by Sunday. Nigeria evidently believes that a stable Chad will forestall further Libyan influence in an area uncomfortably close to Nigeria's predominantly Muslim north. The Nigerians may be underestimating the complexity of the situation in Chad and might find their role limited. We cannot confirm press reports that several hundred Muslims were killed in communal riots in predominantly Christian areas of southern Chad. Spreading anti-Muslim activity may well prompt Habre to take strong military action, ruling out any chance of an early political settlement.

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USSR: New Gosplan Co-chairman

Pravda disclosed yesterday that Yakov Ryabov, Central Committee Secretary for Defense Industry, has been named a first deputy chairman of the State Planning Committee (Gosplan). Gosplan has been under intense criticism from President Brezhnev, and this appointment could signal the leadership's intention to shake it up. Ryabov still holds his party post, but he is likely to lose it at the next Central Committee plenum. His reassignment, therefore, is a significant political demotion, and it may signal political difficulties for his apparent principal leadership patron, Central Committee Secretary Andrey Kirilenko.

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SPECIAL ANALYSIS

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WORLD OIL MARKET: Impact of Iranian Supply Disruption

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[Redacted] isolated shortages are beginning to appear, and several OPEC oil producers, prompted by a steep climb in spot market prices, have boosted their official selling prices for some crudes by 5 to 10 percent. Market pressures will intensify in the second quarter of 1979, and rationing of supplies by companies will restrain consumption significantly by summer unless Iranian oil production is soon restored to between 3 million and 4 million barrels per day and a steady flow of exports is resumed. Although Iranian crude was exported on Monday for the first time since December, exports are still too low and prospects for higher levels too uncertain to affect significantly either world market prices or company supply cutbacks.

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//Official sources in the new Iranian Government have said recently that Iran will maintain production of between 3 million and 4 million barrels per day over the long term. The government may not be able to meet its production goals, however, because of political instability, disruption by dissident oil workers, or an inability or unwillingness to attract necessary expatriate workers back to the oilfields. If Iranian production--reportedly 1.6 million to 2 million barrels per day in recent days--does not remain significantly above 1 million barrels per day during the remainder of 1979, or if Iranian supply increases are offset by decreases in production by other countries, severe adjustments will be required in consumption among major importers. In the US, the initial impact will fall most heavily on gasoline and heating oil. In Europe, all products will be affected fairly evenly.// [Redacted]

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//A tight world oil situation is likely to continue for the next several years. Whatever the composition of the government in power in Iran, it almost certainly will pursue a more moderate development strategy than

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did the Shah and will produce less oil. Iran apparently once again will be an OPEC price hawk, strengthening the hawk position in OPEC pricing decisions. Rising prices will restrain oil consumption but at the cost of reduced economic growth.

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//The prolonged cutback in Iranian oil production has been only partially offset by other producers.

The net loss on the oil market of the Iranian shortfall since late December has been about 2.5 million barrels per day--equivalent to 5 percent of oil consumption in the non-Communist world.//

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//Unless substantially increased Iranian output reduces market pressures, OPEC members can be expected to continue to push for higher prices and to capture more profits. OPEC states will consider formal price action at a special meeting on 26 March in Geneva.//

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//Major oil importing countries are outwardly projecting a calm attitude. Concern is growing, however, and a few countries have begun implementing conservation measures. Israel and South Africa--the two countries that had been most dependent on Iran--have sent out feelers to other suppliers and are shopping in the spot market. Both countries have large in-country stocks and are resisting the high asking prices for spot supplies.

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A number of East European and developing nations appear
to be experiencing the greatest difficulty in making up
lost supplies.// [redacted]

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//The 19 members of the International Energy Agency have agreed to try to reduce oil consumption by 5 percent--a total of some 2 million barrels per day--to offset the shortfall caused by the Iranian supply disruption. All countries are to take prompt action and contribute proportionately to the cutback. The member countries also agreed to implement inventory policies that would result in adequate stocks for next winter's heating season. Agency officials noted that, while the situation was serious enough to warrant demand restraint measures, it had not reached a point that requires implementation of the Agency's emergency sharing scheme.// [redacted]

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//The oil situation will remain a serious problem for the next several years. We expect oil supplies in the non-Communist countries to grow by only about 1 to 2 percent in the period until 1982, compared with 3.7-percent average growth from 1976 to 1978.// [redacted]

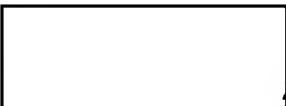
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//Events in Iran could adversely affect oil production policies in other developing countries. The political costs of the Shah's modernization program could well reinforce tendencies in other oil producing states to hold down the pace of their own economic development, particularly in the oil sector. While some increases in oil production over the next few years will be forthcoming from other non-Communist suppliers--mainly Mexico and the United Kingdom--this will probably be offset by a drop in export supplies from the Communist countries and lower US production.//

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